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Mexico

Cotton and Products Annual

Cotton Production Expected to Drop 17% in MY 2012/13

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Report Highlights:
The Post/New MY 2012/13 total Mexican cotton production is forecast to decrease approximately 17 percent due to an expected decrease in planted area resulting from continued volatility in international cotton prices and a contraction in domestic consumption. Total domestic cotton consumption in MY 2012/13 is forecast to decrease to 2,209,000 bales (each bale weighs 480 pounds) - down approximately 10 percent compared to the previous years' revised estimate. This decrease is expected to be driven by a big jump in imports from China as protective duties were recently eliminated.

Executive Summary:

The Post/New MY 2012/13 total Mexican cotton production is forecast to decrease approximately 17 percent due to a drop in planted area resulting from continued volatility in international cotton prices and a contraction in domestic consumption. The MY 2012/13 internal consumption estimate is expected to decrease substantially as imports of clothing and textiles from China should increase substantially with the removal of protective duties as of January 1, 2012. Industry sources estimate that for MY 2011/12, 85 percent of the total area planted used GE seeds with an average yield of 8.55 bales per hectare (ha). Conventional hybrid cotton seeds yield, on average, only 7.24 bales/ha.

The transitional duties that Mexico placed on 112 apparel items, 14 textile items, a range of footwear and various other products originating in mainland China were eliminated on December 12, 2011. These duties were originally implemented on October 15, 2008, as part of a deal that required Mexico to replace the non-WTO-compliant and extremely high antidumping duties that had been in place on most textiles and apparel for many years with a temporary measure on a significantly narrower group of products that would give Mexican manufacturers additional time to prepare for fully-fledged competition.

The Mexican government unveiled in December 2008 a program that established a schedule for the reduction in five annual stages of the MFN duty rates on approximately 97 percent of manufactured imports. The most recent round of cuts took place on January 1, 2012, and included 479 tariff lines, including 355 apparel tariff lines of Chapters 61 and 62, 41 textile made-ups of Chapter 63 and 26 items of Chapter 42. The duty rates on covered apparel and textile made-ups were reduced from 25 percent to 20 percent or from 30 percent to 25 percent, depending on the product. Another batch of cuts (to a 20 percent duty) will take place on January 1, 2013, for certain apparel, textile made-ups and footwear. This means that the MFN duty rate for apparel and textile made-ups imported into Mexico is either already at 20 percent or will reach that level on January 1, 2013.

Commodities:

Cotton

Production:

The Post/New MY 2012/13 total Mexican cotton production forecast decreased slightly to 1,025,000 bales due to an expected reduction in planted area. This reduction is being influenced by continued volatility in international cotton prices and a contraction in domestic consumption.

The Post/New MY 2011/12 total Mexican cotton production estimate is 1,243,000 bales, according to updated figures from the Confederation of Mexican Cotton Associations (CMCA). The MY 2010/11 total cotton production remains unchanged. Data for MY 2011/12 shows an increase in cotton production which is attributed to farmers converting land planted for other uses (or abandoned land) to cotton production due to attractive cotton prices. In addition, the use of imported seeds has resulted in much higher domestic yields. The Post/New MY 2010/11 total cotton harvested area estimate has been revised downward according to recently released official data from SAGARPA.

Cotton yields vary significantly among the major-producing areas in Mexico. Average cotton yields for MY 2011/12 reached 6.4 bales/ha. The highest yielding area was seen at Coahuila with 8.67 bales/ha while the lowest yielding areas was Tamaulipas with only 4.74 bales/ha. Although cotton growers in northern Mexico have adopted the use of genetically-enhanced (GE) seed varieties, other factors, such as weather and use of technology, can explain differences in production levels. For example, in Tamaulipas all cotton production is in non-irrigated areas, which significantly reduces yields.

The CMCA stated that biotechnology continues to be an important tool in reducing pesticide usage in Mexico's cotton sector. CMCA stated that pesticide application dropped by over 50 percent due to use of GE seeds while yields have increased dramatically. Industry sources estimate that for MY 2011/12, 85 percent of the total area planted used GE seeds with an average yield of 8.55 bales/ha. Conventional hybrid cotton seed yields average only 7.24 bales/ha. Unfortunately, excessive administrative measures continue to limit the timely purchase of imported GE seed from the United States. Relative to the quality of the fiber, CMCA expects that more widespread use of GE varieties will allow producers to obtain better yields and quality. National Textile Industry Chamber of Mexico (CANAINTEX) reps stated that standardization in quality is of extreme importance for domestic consumption. The use of GE cotton seed varieties reduce the molasses content and, in this way, significantly improve quality.

Consumption:

Total domestic cotton consumption in MY 2012/13 is forecast to decrease to 2,290,000 bales (each bale weighs 480 pounds) - down approximately 10 percent compared to the previous years' revised estimate. This decrease is expected to be driven by a big jump in imports from China as protective duties were recently eliminated. The transitional duties that were in place on 112 apparel items, 14 textile items, a range of footwear and various other products originating in mainland China were eliminated on December 12, 2011. These duties were originally implemented on October 15, 2008, as part of a deal that required Mexico to replace the non-WTO-compliant and extremely high antidumping duties that had been in place on most textiles and apparel for many years with a temporary measure on a significantly narrower group of products that would give Mexican manufacturers additional time to prepare for fully-fledged competition. The Mexican government unveiled in December 2008 a program that established a schedule for the reduction in five annual stages of the MFN duty rates on approximately 97 percent of manufactured imports. The most recent round of cuts took place on January 1, 2012, and included 479 tariff lines, including 355 apparel tariff lines of Chapters 61 and 62, 41 textile made-ups of Chapter 63 and 26 items of Chapter 42. CANAINTEX representatives (in consultation with King & Spalding) presented a study to the Secretariat of Economy (SE) on the impact of Chinese subsidies to their textile industry and the damage said subsidies are causing to the Mexican textile sector. CANAINTEX expects the results of this study will lead SE to file a complaint at the World Trade Organization against China. It is estimated that Chinese imports of textiles and clothing grew between 30 and 35 percent in the first quarter of 2012 compared to the same period in 2011.

For MY 2010/11 and MY 2011/12, total cotton demand estimates were revised upward from USDA/Official data reflecting updated data from SAGARPA and industry sources. In both periods, total consumption estimates are expected to be higher than USDA/Official previous estimates as demand from the Mexican textile industry has been growing faster than anticipated since 2010 as consumer purchasing power and apparel spending recovered. According to the National Chamber of the

Clothing Industry (CANAIVE), the textile industry was the third most important generator of GDP in Mexico in the third quarter of 2011. However, the rapid rise, and equally precipitous fall, in cotton prices have caused disruptions across the supply chain. But perhaps more importantly, expected price volatility in 2012 will likely impact cotton demand and encourage higher usage of man-made fibers.

Trade:
The Post/New MY 2012/13 total cotton import estimate is expected to decrease approximately 7 percent in comparison with the Post/New revised estimate for MY 2011/12. This is due mainly to a reduction in demand from the Mexican textile industry. Exchange rate fluctuations will play a key role in determining the amount of cotton imported. The United States should remain the main supplier to Mexico and account for practically 100 percent of total cotton imports.

The Post/New total cotton import estimates for MY 2010/11 and MY 2011/12 have been revised upward from the USDA/Official estimate to 1.507 and 1.5 million bales, respectively, in order to reflect official data from the Mexican National Institute of Statistics and Geography (INEGI).

The Post/New total cotton export forecast for MY 2012/13 is expected to reach 250,000 bales as the Mexican cotton industry continues to make inroads in new markets in Central and South America. Export estimates for MY 2010/11 and MY 2011/12 have been revised downward from USDA/Official data based on recently released information from INEGI.

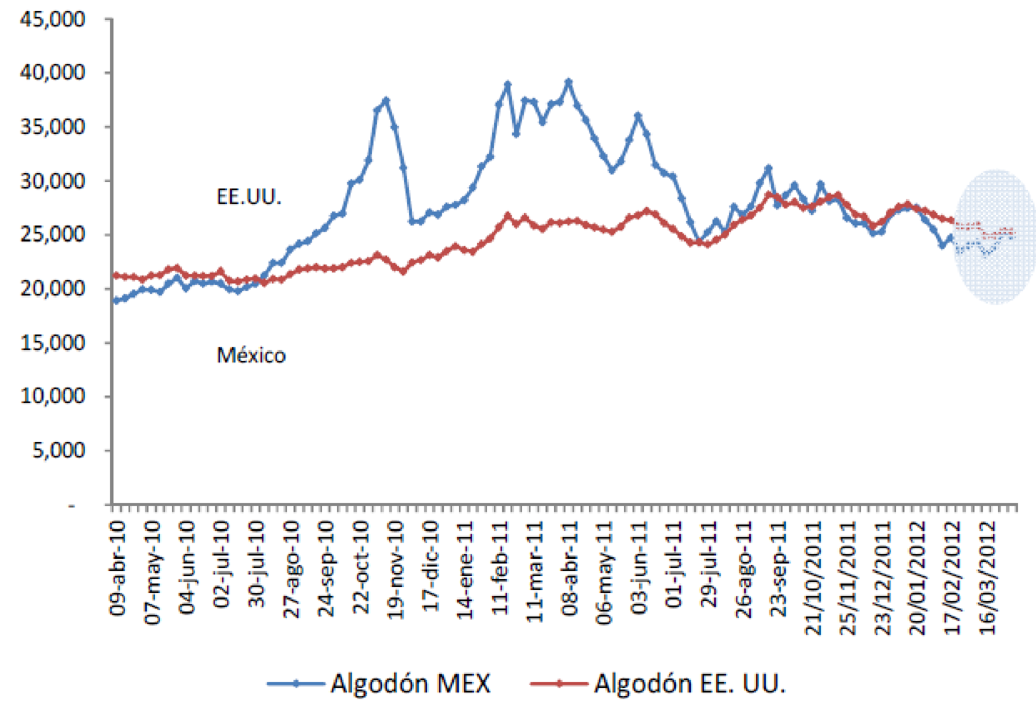
Cotton Prices:
The SAGARPA Agribusiness Subsecretary (SFA) reports on cotton and other commodities prices on a weekly basis. Cotton prices in Table 1 are for the annual average domestic market in Mexico per metric ton. The prices presented in Figure 1 show the differences of weekly prices in Mexico and in the United States from 2010-12.

Table 1. Average annual price for domestic market of cotton

	US dollar (pesos/ton)	Annual variation	Standard deviation
2010	1,776 (23,088)		4,917
2011	2,355 (30,618)	33	4,213
2012	1,932 (25,115)	-18	1,502

Source: Agribusiness Subsecretary (SFA, SAGARPA).
Note: For 2012 was considered the accumulated to April 6, 2012. Current Exchange Rate: U.S. $1.00 = 13.00 pesos

Figure 1. Mexico: Weekly average prices for cotton in Pesos/MT in Mexico and U.S.



Stocks:
Post/New MY 2012/13 ending stocks are forecast to decrease to 669,000 bales due, primarily, to a reduction in domestic production. The Post/New MY 2010/11 and MY 2011/12 ending stock estimate have been revised upward from USDA/Official estimates due to higher-than-previously anticipated imports, for both years and, a higher domestic production in MY 2011/12. This data reflects more recent information provided by SAGARPA and industry sources.

Since March 2010, SAGARPA's Food and Fisheries Statistics Service (SIAP) has ceased releasing information on grain and oilseed stocks that were regularly published on its website and called "Availability-Consumption Balance (ACB)." These ACB reports included information on production, imports, exports, and stocks of different commodities, including cotton. According to SAGARPA, the official reason it stopped publishing this information was due to the need to review the methodology for collecting this information from various industries and the need to collect data with greater accuracy.

Policy:
On March 27th, 2012, Agriculture Committee and Livestock Chairman at the Lower House Cruz Lopez Aguilar (PRI) proposed to establish an Iberoamerican Pact (with Argentina) to boost biotechnology genetic engineering. According to Lopez Aguilar, such a move is necessary to provide for greater profits to Mexican producers and to combat the disastrous effects of global climate change (particularly droughts). If the Mexican government approves this Pact, markets analysts expect a massive reduction in red tape that currently exists for the purchase of imported GE seeds for planting.

AgroBio, a private organization made up of the main agricultural biotechnology developers in Mexico (Monsanto, Pioneer, Syngenta, Dow, Bayer Crop Science, etc), launched a "Cotton Plan 2020" in September 2011. The main objective of this plan is to increase domestic cotton production from

750,000 bales in 2010 to 3 million bales in 2020 - primarily through the use of GE cotton seed and increased planting area. CMCA admits that this plan is extremely ambitious as increasing production to 3 million bales would require at least 500,000 ha of planted area.

On April 8, 2009, SAGARPA announced in the Mexican Federal Register (*Diario Oficial*) modifications to the operational rules of PROCAMPO (a Mexican agricultural support program) for the 2009 through 2012 spring/summer planting seasons. The support payments are between 963 to 1,300 Pesos/ha depending on the number of hectares each producer has registered in the program. Additionally, in 2009, SAGARPA reduced the maximum payment limit under the program to 100,000 pesos (roughly $7,692 with Exchange Rate: U.S. $1.00 = 13.00 pesos) regardless of total area under production (See 2009 GAIN Report MX9020 *Mexico Announces Changes to Support Program*).

The Mexican government continues to encourage forward contract purchases between farmers and buyers through the Forward Contract Program, *Agricultura por Contrato*. The program is designed for producers, traders and consumers of corn, wheat, sorghum, soybean, safflower, cotton, coffee, orange juice and livestock products (beef and pork), and recently added cocoa and coverage for agricultural and fishing inputs such as fertilizers, natural gas (and derivatives), and diesel. Cotton and other non-edible agricultural products have been added to the list of commodities.

Industry sources stated that this Program is a novel subsidy system based on market prices and tools that facilitates price stability, merchandising, and marketing for Mexican producers of several products.

Mexican Manufacturers Voice Concerns Over China:
The Mexican government has taken decisive steps in recent years to reduce the duties in place on a wide array of products as part of a broader strategy to remove tariff and non-tariff barriers to trade. These efforts have greatly enhanced the prospects for mainland Chinese textile and apparel exporters in the Mexican market, which currently face a considerably lower duty burden than just a few months ago. However, Mexican manufacturers have continued to voice their apprehension about the potentially negative effect of a sudden surge in textile and apparel shipments from mainland China and the Mexican government has heeded those concerns by adopting a more robust trade enforcement policy with respect to apparel, footwear and other sensitive products.

The transition duties that were in place on 112 apparel items, 14 textile items, a range of footwear and various other products originating in mainland China were eliminated on December 12, 2011. These duties were originally implemented on October 15, 2008, as part of a deal that required Mexico to replace non-WTO-compliant and extremely high antidumping duties that had been in place on most textiles and apparel for many years with a temporary measure on a significantly narrower group of products that would give Mexican manufacturers additional time to prepare for fully-fledged competition.
The Mexican government unveiled in December 2008 a program that established a schedule for the reduction in five annual stages of the MFN duty rates on approximately 97 percent of manufactured imports. The most recent round of cuts took place on January 1, 2012, for 479 tariff lines, including 355 apparel tariff lines of Chapters 61 and 62, 41 textile made-ups of Chapter 63 and 26 items of Chapter 42. The duty rates on covered apparel and textile made-ups were reduced from 25 percent to 20 percent or from 30 percent to 25 percent, depending on the product. Another batch of cuts (to a 20 percent duty) will take place on January 1, 2013, for certain apparel, textile made-ups and footwear. This means that

the MFN duty rate for apparel and textile made-ups imported into Mexico is either already at 20 percent or will to lowered to that level on January 1, 2013.

The Mexican government has publically stated that it is prepared to pursue regular antidumping and safeguard actions against mainland Chinese products to protect the domestic apparel, footwear and other sectors from injurious competition from abroad. Any such trade remedy actions would have to be carried out in full compliance with Mexican law and WTO requirements, which would make it more difficult than in the past for Mexico to impose such measures on mainland Chinese products. High-ranking Mexican officials have also expressed concern about certain unfair trade practices pursued by mainland China that may not comply with WTO requirements and are trying to establish a more fluid and collaborative dialogue with their counterparts in Beijing as well as with key mainland Chinese diplomats in Mexico City. The Mexican government has also said that it would welcome input from domestic stakeholders this year on ways to better target and increase the effectiveness of trade enforcement efforts.

Mexican authorities have already taken concrete steps to enhance the domestic trade enforcement regime. For example, as part of on-going efforts to enhance the monitoring of imports, Mexican Customs (SAT) launched on December 15, 2011, a new price alert system to detect any practices of undervaluation that may adversely affect domestic producers. Imports with a price below a reference price provided by the domestic industry will be flagged and the collected data will be used to generate information and risk analysis models that will enable Mexican authorities to carry out comprehensive audits. SAT indicates that this price alert system will initially focus on 400 textile tariff lines and will subsequently incorporate tariff lines of Chapters 61, 62 and 64. Other sectors beyond the textile, apparel and footwear sectors will be incorporated into the system at a future date. **(Source: Hong Kong Trade Development Council)**

Production, Supply and Demand Data Statistics:
Table 2. Mexico: PSD for MY 2010/11 through 2012/13

Cotton Mexico	2010/2011 Market Year Begin: Aug 2010		2011/2012 Market Year Begin: Aug 2011		2012/2013 Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	120	0	197		167
Area Harvested	116	111	190	192		160
Beginning Stocks	632	632	535	796		784
Production	732	732	1,200	1,243		1,025
Imports	1,196	1,507	1,050	1,500		1,400
MY Imports from U.S.	0	1,506	0	1,500		1,400
Total Supply	2,560	2,871	2,785	3,539		3,209
Exports	350	250	350	215		250
Use	1,650	1,800	1,650	2,515		2,265
Loss	25	25	25	25		25
Total Dom. Cons.	1,675	1,825	1,675	2,540		2,290
Ending Stocks	535	796	760	784		669
Total Distribution	2,560	2,871	2,785	3,539		3,209

1000 HA, 1000 480 lb. Bales

For More Information:

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work http://www.youtube.com/user/ATOMexicoCity

Useful Mexican Official Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx , equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. The information about biotechnology and biosafety in Mexico is compiled by an Interministerial Commission (CIBIOGEM) http://www.cibiogem.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX1096	November Cotton update	12/15/2011
MX1054	June Cotton Update	06/30/2011
MX1018	February Cotton Update	03/15/2011
MX1008	December Cotton Update	02/01/2011
MX0077	Cotton Situation – October Update	10/25/2010
MX0062	Cotton Situation – September Update	09/10/2010
MX0038	July Cotton Update	06/15/2010
MX0021	Cotton and Products Annual	04/14/2010